

St. George Island Utility Company, Ltd.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
REGARDING THE APPLICATION FOR INCREASED RATES FOR
ST. GEORGE ISLAND UTILITY COMPANY, LTD.

IN FRANKLIN COUNTY

DOCKET NO. _____ - WU

TESTIMONY OF GENE D. BROWN

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1 Q. Please state your name, profession and address.

2

3 A. My name is Gene D. Brown. I am an attorney and
4 utility company manager. My office is located at 3848
5 Killearn Court, Tallahassee, FL 32308.

6

7 Q. What involvement do you have with the applicant,
8 St. George Island Utility Company, Ltd?

9

10 A. I am the president of the two corporate general
11 partners of Leisure Properties, Ltd., which is the
12 general partner of St. George Island Utility Company,
13 Ltd.

14

15 Q. Please briefly outline your past involvement with
16 the utility?

17

18 A. I was a general partner of Leisure Properties
19 during the mid-1970's when construction of the St.
20 George Island water system was commenced. I was still
21 a general partner of Leisure Properties in 1979 when
22 the existing St. George Island water system was sold to
23 St. George Island Utility Company, Ltd., a Florida
24 limited partnership.

25

1 Q. What has been your involvement with the management
2 of the utility company?

3

4 A. As one of the two general partners of Leisure
5 Properties, Ltd., I had dual management
6 responsibilities from the inception of the water system
7 in 1975. After the system was purchased by St. George
8 Island Utility Company, Ltd. in 1979, I remained as one
9 of two general partners of Leisure Properties, Ltd.
10 until April of 1981. In 1981, I acquired my partners'
11 interest in Leisure Properties, Ltd., and continued as
12 the principal manager of Leisure throughout the 1980's.
13 This included overall supervision of St. George Island
14 Utility Company, Ltd.

15

16 Q. What problems, if any, did the utility company
17 experience during the mid-1980's?

18

19 A. After two hurricanes in the late summer and early
20 fall of 1985, which caused extensive damage to the
21 utility supply main on the bridge coming to the Island,
22 the utility began experiencing financial difficulties
23 due to inadequate rates.

24

25

1 Q. How many rate increases had the utility company
2 secured between its formation and the financial
3 difficulties in the mid-1980's?
4

5 A. None. The utility had no increase in any of its
6 rates or connection fees between the mid 1970's when
7 construction of the system commenced and 1989, when the
8 utility obtained its first increase in rates.
9

10 Q. Did the utility company experience any other
11 problems during the mid 1980's?
12

13 A. Yes. Beginning in 1984, the utility company and
14 its general partner, Leisure Properties, Ltd., were
15 involved in extensive litigation with a former general
16 partner of Leisure, which was the managing general
17 partner of the utility company.
18

19 Q. What affect, if any, did this litigation have on
20 the utility company?
21

22 A. This litigation created tremendous stress on the
23 utility company and its management, as well as
24 uncertainty regarding the utility company's future.
25

1 Q. Was the utility company adequately managed and
2 maintained from the period between 1984 and the rate
3 case in 1989?
4

5 A. No. In retrospect, it is clear that more time,
6 money and other resources should have been devoted to
7 the utility company during this period of time.
8

9 Q. The 1989 rate case final order directed the utility
10 to make certain improvements, including changes in its
11 day to day operations and the construction of certain
12 improvements. Do you agree that these improvements
13 were necessary and proper?
14

15 A. Yes. The utility badly needed to upgrade its
16 overall operation, including better management and more
17 capital expenditures for improvements necessary to meet
18 the growth demands on St. George Island.
19

20 Q. What efforts, if any, did you make to see that
21 these improvements were made?
22

23 A. Since the 1989 rate case, I have invested a great
24 deal of time, effort and energy to bring the utility
25 company into full compliance with all DER and PSC

1 requirements, as part of an overall effort to improve
2 the level of water service on St. George Island.

3

4 **Q. Specifically, what have you done to improve the**
5 **management of the utility company?**

6

7 A. During 1989 and 1990, I employed two professional
8 managers, one with extensive utility experience and one
9 with extensive management experience. Although both of
10 these individuals had their strong points, we were
11 still not making adequate progress during 1989 and
12 1990, so I decided in late 1990 to take over day to day
13 management of the company myself, and to employ all new
14 personnel. This included a new operations manager for
15 St. George Island, as well as an assistant on the
16 Island. It also included the employment of a new
17 office manager and accountant in the main billing
18 office in Tallahassee. To further increase efficiency,
19 we installed a new computer software billing and
20 accounting program.

21

22 **Q. What affect, if any, did these changes have on the**
23 **level of the service?**

24

25

1 A. Since the later part of 1990, the utility's overall
2 efficiency has improved tremendously, and the overall
3 quality of water service on St. George Island is
4 extremely high. We have been operating with basically
5 the same personnel since late 1990. During that
6 time, we have experienced few, if any, outages, we have
7 had no water quality problems, and have received very
8 few complaints of any nature.

9

10 **Q. Have you conducted any type of customer surveys to**
11 **determine how the utility is perceived by its**
12 **customers?**

13

14 A. Yes. In the summer of 1992, we conducted a
15 comprehensive customer survey which included a detailed
16 questionnaire to every customer. Based upon responses
17 from 339 customers, approximately 1/3 of our customer
18 base, we determined that over 80% of our customers were
19 generally happy with the water service they were
20 receiving, which service had improved substantially
21 during the last three years. This customer survey
22 identified three areas that still needed improvement,
23 and we took immediate steps to improve our service in
24 the areas identified by our customers.

25

1 Q. What if anything has changed with regard to the
2 number of complaints regarding the utility company
3 during the last 2 or 3 years?
4

5 A. We now receive virtually no complaints regarding
6 either our service or our billing or accounting
7 procedures. After checking with the Consumer
8 Complaints Division of the Public Service Commission,
9 we determined that there were two complaints regarding
10 billing misunderstandings during 1992, and two
11 complaints during 1993. The complaint in 1993 was
12 from an individual who noticed a foul odor in the water
13 immediately following the cleaning of our ground
14 storage tank, which required the aerator to be placed
15 out of service for a short period of time. The other
16 complaint in 1993 involved a minor billing matter in
17 which the customer bill and check for payment crossed
18 in the mail.

19

20 Q. What investments and capital improvements have been
21 made since the last rate case?
22

23 A. In addition to the elevated storage tank, we have
24 installed a third well capable of producing 500 gallons
25 per minute to the Island. We designed this third well

1 to operate in tandem with wells 1 and 2 so that we will
2 have a complete redundancy regarding our source of
3 supply. We have also installed a backup chlorination
4 system to provide redundancy for our water quality
5 protection. We are in the process of making
6 substantial other improvements to the system which will
7 provide complete backup or redundancy in all phases, so
8 that there will be no additional water outages on the
9 Island. We also recently installed a new generator to
10 replace the one that gave us so many problems over the
11 years.

12

13 **Q. In addition to your time and effort, what, if any,**
14 **capital investments have you made in the system?**

15

16 A. During 1992 alone, my affiliated companies made
17 capital investments of almost \$300,000 to improve the
18 water system on St. George Island, thereby increasing
19 the level of service to all of our customers. Even
20 after any and all deductions for legal fees, management
21 fees or loan repayments to me and/or my affiliated
22 companies, our net new investment during 1992 was
23 almost \$200,000.

24

25

1 Q. Why was it necessary to make such an additional
2 capital investment?

3

4 A. In almost 15 years since our rates were initially
5 established, the utility company has had only the 1989
6 rate increase, other than one or two small "pass
7 through" increases as the result of indexing our rates.
8 Although the 1989 rate increase was absolutely
9 essential for survival, it still left the company over
10 \$300,000 short each year in terms of the actual funds
11 needed for utility company operations.

12

13 Q. With the funds your companies invested in the
14 system during 1992, did it have adequate operating
15 revenue and personnel?

16

17 A. No. We were still without the necessary funds and
18 personnel to do the job as it should be done. However,
19 I am very happy with our current utility personnel. We
20 have a very strong management team and all of our
21 employees are extremely loyal and competent. We
22 recently hired one more maintenance person on St.
23 George Island to maintain the necessary quality of
24 service, as well as one new person in the Tallahassee
25 office to help keep up with all of the bookkeeping and

1 accounting requirements. Our operations manager, Mr.
2 Hank Garrett, has been working almost seven days a week
3 around the clock in a tireless effort to meet all of
4 the demands placed on him. During the first phase of
5 Mr. Garrett's employment with the utility company, we
6 had a professional firm which performed all of our
7 testing and DER compliance items pursuant to a
8 contract. However, this contract has been terminated,
9 and Mr. Garrett is now responsible for all daily
10 testing, reporting and other DER compliance items.
11 These requirements have grown substantially during the
12 past year or two, and it is now impossible for Mr.
13 Garrett to keep up with all these compliance
14 requirements while working full time every day as a
15 laborer along with our second person on the Island, Mr.
16 Kenneth Shiver. These are both dedicated employees,
17 but they could not be expected to carry the load any
18 longer without assistance, so we hired a new person.
19 We now have one overall operations manager on the
20 Island, as well as two laborers and maintenance
21 personnel who can rotate some of the weekend and
22 nighttime duties. This is a 24 hour per day-seven day
23 per week job, and it was too much for only two people
24 on St. George Island.

25

1 Q. What is the current status of your compliance with
2 PSC and DER rules and regulations?

3

4 A. The utility company is now in full compliance with
5 all PSC and DER requirements. Indeed we are complying
6 with a number of requirements which are not imposed on
7 other similar utility companies. This is not a
8 complaint, but the utility must have sufficient
9 operating revenue if it is to be able to continue
10 providing the level of service which it is currently
11 providing to its customers on St. George Island.

12

13 Q. Why do you feel St. George Island Utility Company
14 is entitled to a rate increase?

15

16 A. I believe we have met our commitment and obligation
17 to the state agencies as well as our customers on St.
18 George Island. In other words, the utility company
19 employees and I have made a tremendous investment in
20 terms of time, money and energy during the last several
21 years to increase the level and quality of water
22 service on St. George Island to the point that it
23 compares favorably with any similar company serving a
24 similar customer base. Now that this investment in
25 time, money and energy has been made, I believe that

1 the utility company is entitled to an adjustment in its
2 rates to adequately compensate the utility which is
3 dedicated to maintaining its current level and quality
4 of service. This cannot be done without adequate,
5 increased rates as set forth in the documents and
6 testimony prepared by our consultant, Mr. Frank
7 Seidman.

8
9 **Q. In the last rate case, it was determined that the**
10 **utility's transmission and distribution lines were only**
11 **18% "used and useful." Do you agree with that finding?**

12
13 **A. No.**

14
15 **Q. Why not?**

16
17 **A. The Island is almost twenty miles long and less**
18 **than one-half mile wide on the average. I do not see**
19 **how the utility had any choice other than to run the**
20 **main transmission line the length of the Island in both**
21 **directions if we were to serve our certificated**
22 **territory. Most of the growth naturally occurred along**
23 **the waterfront, both on the gulf and on the bay. I do**
24 **not see how we had any choice other than to run basic**
25 **lines along these higher growth areas. I also do not**

1 understand how the remaining customers in between be
2 considered as future customers of the utility, since
3 there is no requirement that they tie into the
4 utility's water system except for some of the customers
5 in St. George's Plantation. Indeed, many potential
6 customers are now installing shallow wells at the cost
7 of approximately \$300 to \$400 each, rather than paying
8 a connection fee to the utility which is in excess of
9 \$2,000. In other words, we have to be ready to serve
10 anyone on the Island, but substantially all of the
11 property owners on the Island do not have to purchase
12 water from the utility unless they are in an area that
13 cannot get good water. To compound our problem, the
14 property owners on St. George Island are now demanding
15 a high level of fire protection, including the owners
16 who are not customers and who do not provide any type
17 of support to the water utility system.

18

19 **Q. Have you tried to secure an agreement or legal**
20 **requirement that all property on the Island tie into**
21 **the utility's central water system?**

22

23 **A. Yes, the utility was recently involved in some**
24 **administrative litigation seeking to maintain a**
25 **requirement within St. George's Plantation, at least,**

1 that all property owners in that area would have to tie
2 into the central water system. All of the main state
3 agencies assisted the utility in this regard, including
4 the Department of Community Affairs, the Northwest
5 Florida Water Management District, and the Department
6 of Environmental Regulation. However, despite my
7 request for assistance, the Florida Public Service
8 Commission staff refused to assist the utility in this
9 regard, and refused to play a part in the overall
10 effort to maintain this requirement in St. George's
11 Plantation.

12

13 **Q. Why do you bring this up at this time?**

14

15 A. It just seems extremely unfair that the Commission
16 should rule that our transmission and distribution
17 system was only 18% used and useful, which cut the
18 utility out of approximately \$900,000 in rate base,
19 when the same commission staff refused to assist the
20 utility in maintaining a requirement that all of the
21 potential "non used and useful" customers tie into the
22 utility system. In other words, I do not see how the
23 Commission can logically make a ruling that the utility
24 has to wait until all of the potential customers tie
25 into the system for a return on the utility's

1 investment, when there is no requirement that they ever
2 tie into the system, and when the same Commission
3 encourages shallow wells by refusing the utility's
4 request for assistance in maintaining a requirement
5 that existing lots tie into the system as homes are
6 built.

7

8 **Q. Do you believe there were any misunderstandings**
9 **that led to the commission's finding in the last rate**
10 **case that the utility's transmission and distribution**
11 **lines were only 18% used and useful?**

12

13 A. Yes. I believe that the commission incorrectly
14 assumed or was advised that the utility was affiliated
15 with the overall development of St. George Island.

16

17 **Q. Was that true?**

18

19 A. No. The utility was and is affiliated with Leisure
20 Properties, Ltd., which was the original developer of
21 St. George's Plantation. However, this is only a part
22 of St. George Island, which is our certificated area.
23 Leisure Properties started developing the Plantation in
24 1976. In April of 1981, one of the partners of Leisure
25 withdrew from the partnership, taking all of the

1 commercial land in the Plantation, consisting of
2 approximately 200 acres, as well as the unplatted area
3 now known as Pelican Point. This withdrawing partner
4 also took all of the beachfront on the east end known
5 as Sunset Beach, or 300 Ocean Mile, which was a high
6 density area, as were the commercial tracts in the
7 Plantation. Leisure Properties is not, and never has
8 been, the developer of the main, center portion of the
9 Island, which is where most of the lots and commercial
10 development is approved and has occurred. Also,
11 Leisure was not the "developer" of the east end, which
12 was sold off in five to ten acre tracts in
13 approximately 1975, which is approximately the same
14 time that the first well was dug on the mainland, and
15 the first water line was run to the Island. The water
16 system was primarily developed and constructed after
17 the sale of these five acre tracts. Also, neither I
18 nor any of my affiliated companies have anything to do
19 with any development whatsoever on St. George Island at
20 this time. The commercial area in the center portion
21 of the Plantation around the airport has been developed
22 and is being developed by other parties. Also, the 100
23 acre commercial tract at Bob Sikes Cut is being
24 developed by other parties. Covington Properties, Inc.
25 is developing 31 lots on approximately 29 acres

1 adjacent to Bob Sikes Cut. George Mahr is developing
2 the remaining 67 acres. I have no involvement at all,
3 directly, or indirectly with any of the development by
4 George Mahr. The Brown Childrens' Trust owns less than
5 10% of Covington Properties, Inc., and I have
6 absolutely no control or day to day involvement with
7 that company. Basically, neither I nor any of my
8 affiliated companies has developed anything on St.
9 George Island since the mid 1980's. And, after 1981,
10 Leisure was not involved with the development of any of
11 the commercial property within St. George's Plantation
12 which is where most of the development density was
13 approved. The restrictive covenants which originally
14 required connection to the water system only applied to
15 the residential areas, not to the over 200 acres of
16 commercial property in the Plantation where most of the
17 density was approved. Even prior to 1981, my
18 involvement, through affiliates, was limited to a
19 relatively small portion of the Island. The utility
20 company did not construct its transmission and
21 distribution lines for development controlled by me or
22 any of my affiliates. The utility company made the
23 decision to install such transmission and distribution
24 lines as a prudent business judgment to serve the
25 people who needed water service on St. George Island,

1 which is what I perceived the utility's obligation to
2 be under its certificate and tariff.

3

4 **Q. Why was all this not presented at the last rate**
5 **case?**

6

7 A. Neither I nor my attorney believed that this was an
8 issue. Our expert testimony was that the transmission
9 and distribution lines were 100% used and useful.
10 Public Counsel's expert testimony was that the
11 transmission and distribution system was 90% used and
12 useful. Based on this, we thought that the finding
13 would necessarily fall somewhere within the evidence,
14 so we did not believe it was necessary to present any
15 more detailed testimony regarding developer-utility
16 control of the Island, or actual layout of the units on
17 the Island. However, after the evidence was closed, it
18 was somehow determined that the actual used and useful
19 percentage of the transmission and distribution system
20 was only 18%. The utility has been suffering from the
21 cash flow shortfall caused by this finding for the past
22 five years. It is one of the main reasons that my
23 affiliated companies and I have had to contribute so
24 much additional cash to maintain and improve the
25 utility operations during the last five years since the

1 1989 rate case.

2

3 **Q. What do you believe the correct used and useful**
4 **percentage should be?**

5

6 A. I believe it should be 100% across the board,
7 including the transmission and distribution system.
8 This is an "horrendous" system to operate and maintain.
9 We have an obligation to serve customers whose wells go
10 bad, and all other customers in areas that cannot get
11 good water. At the same time, we have to run our lines
12 by hundreds if not thousands of lots whose owners may
13 never hook into our system, because there is no
14 governmental will to require mandatory connections on
15 the Island. This is an environmental disaster waiting
16 to happen, because of the extremely small lots with
17 septic tanks which basically means that the sewage
18 wastewater is being recirculated as potable drinking
19 water. The utility is powerless to do anything about
20 this situation; however, the utility does not believe
21 that it should be penalized by the commission's "used
22 and useful" calculations when there is no way to
23 legally assume that any of the additional development
24 on the Island will have to be served by the utility
25 company, other than a limited number of lots in the

1 Plantation. This is compounded by the fact that the
2 Commission now seems to be encouraging this utility to
3 assume at least some degree of responsibility for fire
4 protection on the Island, which can only be provided by
5 the use of the transmission and distribution system
6 which the Commission has determined to be only 18%
7 "used and useful."

8

9 **Q. Do the shallow wells cause you any other problems?**

10

11 A. Yes. There are great numbers of shallow wells that
12 have the potential to contaminate our water system. We
13 have had to substantially increase the time and effort
14 spent on water company matters by Sandra Chase, who is
15 in charge of our DEP mandated cross connection control
16 program. It became impossible for this program to be
17 properly administered by the personnel on the Island,
18 so it was all transferred to the Tallahassee office.
19 Mrs. Chase is also in charge of our governmental agency
20 and customer relations, and she serves as a company-
21 wide administrative assistant to assist each employee
22 to properly perform his or her duties, including
23 correspondence and other matters. Mrs. Chase spends
24 approximately 80% of her time on utility company
25 matters. Her salary has been increased since the test

1 year of 1992, and this adjustment is reflected in the
2 MFR's.

3

4 **Q. What is the utility's position regarding fire**
5 **protection on St. George Island?**

6

7 A. The utility does now provide a certain level of
8 fire protection on St. George Island, although there is
9 no legal requirement to do so. Also, the utility plans
10 to undertake a comprehensive fire protection study
11 during 1994 to determine the feasibility of improving
12 the level of fire protection provided by the utility on
13 St. George Island. Basically, the utility is ready,
14 willing and able to upgrade its system to provide an
15 improved level of fire protection on St. George Island.
16 However, we must first determine the standard to be
17 met, the improvements needed to meet this standard, and
18 the most efficient method of making these improvements.
19 We must also be assured that the utility will receive
20 an adequate return on the necessary improvement costs
21 and ongoing expenses to be incurred in connection with
22 such added fire protection. We cannot justify making
23 substantial improvements to the system, including the
24 transmission and distribution system, which would be an
25 integral part of any fire protection system, until we

1 understand how the utility can receive a return on the
2 investment it has already made in the transmission and
3 distribution system which was deemed to be only 18%
4 "used and useful."

5

6 **Q. The utility seems to have extremely high debt. How**
7 **can it continue to operate successfully with such a**
8 **debt structure?**

9

10 A. The real hard third party debt of the utility at
11 this time is approximately \$1,200,000. All of the
12 other debt is to intercompany affiliates. Our plan is
13 to convert all of this excess, intercompany debt to
14 equity at or before the conclusion of this rate case,
15 provided or assuming that we end up with a rate base
16 somewhere near the hard third party debt of \$1,200,000.
17 Immediately after this "debt-to-equity conversion," we
18 will refinance the remaining debt of approximately
19 \$1,200,000 with a long-term Farmers Home Administration
20 industrial financing package in the total amount of
21 \$1,500,000. This will be used as follows: \$1,200,000
22 to refinance existing debt, and \$300,000 for working
23 capital and needed improvements to the system. This
24 loan will be closed through a local savings and loan
25 association, which has given preliminary approval for

1 the refinancing, based upon a successful conclusion to
2 this pending rate case and a 90% loan guarantee from
3 FHA. This will allow the utility company to maintain a
4 high level of service on St. George Island on a
5 perpetual basis, rather than suffering through the
6 various cash flow crises that have existed over the
7 past several years.

8

9 **Q. Do you intend to remain as permanent manager of the**
10 **utility company?**

11

12 **A. No. I agreed to take over the day-to-day**
13 **management of the utility only long enough to resolve**
14 **the remaining problems facing the utility company and**
15 **to obtain adequate rates necessary to cover ongoing**
16 **operations, including a fair return for the utility**
17 **investors. I will phase out of the day-to-day**
18 **management after hiring a full-time professional**
19 **manager after these goals are met. Other than phasing**
20 **out my involvement, we plan to maintain all of the**
21 **remaining existing employees as long as they want to**
22 **work for the utility company, because they are doing an**
23 **outstanding job. It is because of their dedication and**
24 **hard work over the past three or four years that we are**
25 **now in full compliance with all rules and regulations**

1 of both the PSC and DER; and they are the reason that
2 we are now providing an outstanding level and quality
3 of water service on St. George Island.

4

5 **Q. Why do you have your accounting and management**
6 **office in Tallahassee?**

7 A. Because it is more efficient and cost effective.
8 We have tried keeping all the offices on the Island,
9 but it was a disaster. It is not practical to secure
10 the necessary professional personnel who are willing to
11 live and work on St. George Island. It is too far to
12 drive every day to work. Most of our customers do not
13 live on the Island, and most the people we deal with on
14 a day-to-day basis are in the Tallahassee area. If all
15 our personnel worked on the Island, our total long
16 distance phone expense would be much greater, and we
17 would be much less efficient. Also, we do not have
18 adequate office facilities on the Island. In short, we
19 have thoroughly considered and experimented with the
20 idea of having all the offices on the Island, and it
21 will not work. It would reduce our efficiency and
22 would be more expensive for our customers.

23

24 **Q. Do you own St. George Island Utility Company, Ltd?**

25

1 A. No. I am an employee of the management company. I
2 have no ownership interest.

3

4

5 Q. The revised MFR's prepared by Frank Seidman show a
6 number of adjustments to the 1992 test year; can you
7 explain why these adjustments are necessary?

8

9 A. As I mentioned earlier, this utility company did
10 not have sufficient revenue during 1992 to actually
11 operate the company the way it should have been
12 operated. We were able to survive through the infusion
13 of almost \$300,000 in cash from my affiliated
14 companies, and through the tireless efforts of our
15 employees who were overworked and underpaid during
16 1992. Such a stressful situation can be endured for a
17 limited period of time, but we cannot expect the
18 utility company employees to continue in this vein on
19 an indefinite basis.

20

21 Q. Can you be more specific, and discuss the various
22 adjustments as they appear in the revised MFR's?

23

24 A. Yes. First, with regard to account 601, employee
25 salaries and wages, we put a new pay raise into effect

1 as of December 1, 1993. This was done for two basic
2 reasons: (1) to keep up with the cost of living
3 increase; and (2) to maintain employee morale so that
4 we would have no turnover. These raises had been
5 promised for some time, and it was necessary to put
6 them into effect so we would not lose any experienced
7 employees. We also have been required to hire a new
8 full time office staff person, Fiona Ramion, who is
9 paid \$6.00 per hour for a basic 40 hour week. She was
10 and is necessary to maintain our books and records in
11 compliance with the rules and regulations of the
12 Commission as interpreted to us by the Commission
13 staff. In order to meet the "readily available"
14 requirement of the NARUC rules as interpreted by the
15 Commission's audit staff, we now prepare full daily
16 documentation on each and every transaction as
17 ultimately reflected in our monthly general ledgers.
18 It was impossible to provide this level of detail and
19 to otherwise maintain our books and records in accord
20 with the NARUC and PSC rules without the addition of at
21 least one staff person in the Tallahassee office.

22 As mentioned earlier, we also had to hire a new
23 maintenance person to assist with the day-to-day
24 operations on St. George Island. The person we hired
25 is Larry Hatfield, who is working for us at the rate of

1 \$8.00 per hour. There are a number of reasons for
2 adding this person to our staff on the Island. We now
3 gather all of the DEP required samples in house,
4 whereas we previously contracted this work out at the
5 rate of \$800 per month to Southern Water Services, Inc.
6 Second, as shown by the Baskerville-Donovan aerator
7 report, we will be required to flush our lines on a
8 daily basis at various dead end points on the Island,
9 which is 20 miles long. This alone will require
10 approximately four hours per day for one person.
11 Third, with the proliferation of shallow wells and the
12 increased emphasis by DEP, PSC, etc. regarding the
13 cross connection program it is almost a full time job
14 for one person to keep our system map up to date and to
15 audit all of the development and construction which is
16 going on throughout St. George Island, much of which
17 includes the construction of shallow wells. Fourth, at
18 the insistence of the PSC audit staff, we are now
19 keeping detailed work orders, purchase orders, time
20 logs, plant records, and other records which were not
21 kept at the same level of detail during the 1992 test
22 year. Fifth, our leak detection program is taking more
23 and more time. Also, in order to document each and
24 every transaction on a daily basis, a great deal more
25 of Hank Garrett's time in the office is required to

1 provide this detail to our Tallahassee bookkeeping
2 office on a daily basis. In other words, Hank Garrett
3 no longer has time to work in the field with Kenneth
4 Shiver on routine repairs and maintenance as he did in
5 1992. Instead, he has to spend substantial time in the
6 office doing managerial and bookkeeping functions, so
7 that he is available for manual labor and repairs only
8 on an emergency basis.

9 Regarding account 604, Employee Pensions and
10 Benefits, we have enacted an employee pension and
11 profits sharing plan effective January 1, 1994. This
12 type of plan has been promised to the employees for
13 several years, and it was necessary to implement it at
14 this time to maintain employee morale and to keep the
15 dedicated employees which we have. This plan requires
16 a contribution by the utility of an amount equal to 5%
17 of each employees' salary. I am not included in this
18 plan, because I am not a direct employee of the utility
19 company.

20 We have also revised our health insurance program
21 to provide basic health insurance coverage for all
22 utility personnel. All employees of the utility were
23 not covered by health insurance during the test year of
24 1992, which was not fair or equitable. We have been
25 able to cap these costs by providing a direct cash

1 allowance to each employee, rather than maintaining an
2 overall group policy which would be subject to periodic
3 increases.

4 Also, we have provided for \$3,000 per year for
5 employee education and seminars. I recently spent five
6 days at the NARUC seminar at Clearwater Beach. I
7 believe that at least two of the utility's employees
8 involved in accounting management need to attend this
9 or a similar seminar. Sandra Chase, who is in charge
10 of our cross connection control program, needs to
11 attend one or more cross connection control seminars to
12 fully understand how to satisfy the requirements of her
13 position. Ann Hills, who is in charge of our
14 computerized billing system, needs to attend the annual
15 seminar that TAABS offers to keep up with the advances
16 in the TAABS billing software. Hank Garrett is now
17 trying to obtain his Class "B" operator's license and
18 Kenneth Shiver is trying to obtain his Class "C"
19 operator's license. Both of these individuals need to
20 attend at least one or two seminars annually to keep up
21 with all utility company operating requirements and
22 other advances in the industry. These seminars are
23 sponsored by DEP, Rural Water Association and other
24 similar agencies and entities. Seminars such as these
25 should be attended by our employees on a ongoing basis,

1 and it is estimated that this will cost approximately
2 \$3,000 per year.

3 Regarding account 631, Contractual Services-
4 Engineering, it is necessary for the utility to have
5 the services of a competent engineer available on a
6 ongoing basis. We constantly need engineering advice
7 regarding the proper operation and maintenance of the
8 system. Also, the utility and its personnel have to
9 meet and confer on an ongoing basis with developers,
10 customers, and various agency personnel regarding
11 engineering matters. This includes meetings with DEP,
12 PSC, Northwest Florida Water Management District,
13 Volunteer Fire Department, St. George Island Civic
14 Club, St. George Island Plantation Owners' Association,
15 Florida Rural Water Association, and various other
16 groups and agencies that have an ongoing interest in
17 the utility company and its operations involving
18 engineering issues. To assure that we will have
19 engineering expertise and assistance available at all
20 times, the utility entered into a retainer agreement
21 with Mr. Wayne Coloney, effective January 1, 1992, at a
22 cost of \$500 per month. We feel this expense is
23 reasonable and necessary to provide Hank Garrett and me
24 with instant engineering assistance which is necessary
25 for both of us to properly do our jobs.

1 Regarding account 632, Contractual Services-
2 Accounting, we have a retainer agreement with Barbara
3 Withers, CPA, for \$500 per month or \$6,000 per year,
4 effective January 1, 1993. This covers five hours of
5 work per month. Any excess time spent by Ms. Withers
6 is billed at the rate of \$100 per hour. We primarily
7 use Barbara Withers for our tax returns, all
8 partnership accounting, and other complicated or more
9 sophisticated accounting matters. Our day-to-day
10 accounting, including compliance with NARUC and PSC
11 accounting requirements, is handled by Jeanie Drawdy.
12 She works 16 hours per week at a cost of \$20 per hour.
13 She has responsibility for assuring that we are in
14 compliance with NARUC and PSC accounting requirements.
15 She prepares and files the annual reports, as well as
16 the monthly and yearly general ledgers. Based upon the
17 detailed and stringent accounting requirements which
18 must be met by this utility company, we must have the
19 services of both Ms. Withers and Ms. Drawdy as I
20 mentioned earlier in order to remain in compliance with
21 all applicable accounting requirements.

22 Regarding account 633, Contractual Services-Legal,
23 the utility has entered into a retainer agreement with
24 my professional association, Gene D. Brown, P.A., under
25 which the utility is obligated to pay \$2,000 per month.

1 This covers all legal services that the utility may
2 require, except extraordinary matters such as this rate
3 case and substantial litigation that cannot be handled
4 by me alone. As a part of this retainer agreement, I
5 keep detailed time records covering all legal matters
6 which I handle for the utility company. This time is
7 billed to the utility at \$150 per hour, which is my
8 standard hourly rate, but I have agreed to waive all
9 fees in excess of \$24,000 per year. During the time
10 that Mary LaBatt was co-managing the utility with me
11 last summer, I was requested to keep time records for a
12 period of approximately 6 weeks. The result was a bill
13 of approximately \$4,000 to \$6,000 per month. Since I
14 was requested to keep detailed time records by the PSC
15 audit staff last fall, I have been keeping time sheets
16 on all legal services rendered to the utility. On the
17 basis of these time records, the utility would be
18 charged well in excess of \$24,000 per year if the
19 utility was required to pay at the rate of \$150 per
20 hour rather than an agreed fee of \$2,000 per month.

21 Regarding account 634, Contractual Services-
22 Management, the utility has an ongoing management
23 agreement with Armada Bay Company, which is an
24 affiliated management company. This retainer agreement
25 has been provided to the Commission staff, and it

1 details the scope of the agreement. Basically, it
2 covers any and all management responsibilities
3 regarding all day-to-day utility operations. It also
4 covers the office space which I use, as well as
5 substantial office equipment and furniture which is
6 owned by Armada Bay Company and used by the utility
7 company. At the suggestion of the Commission's audit
8 staff, I have been keeping general time records
9 regarding my management responsibilities with the
10 utility company. These records show that I am spending
11 almost all of my time in managing this utility company.
12 I intend to continue doing this until the remaining
13 problems are solved, and until the utility secures a
14 sufficient revenue base so that the company can be
15 managed by a professional utility manager who does not
16 have to face the daily cash flow crises that we have
17 been operating under for the past several years.

18 Regarding account 635, Contractual Services-Other,
19 there are a number of adjustments which need to be
20 made. First, we need to have a contract with a
21 competent testing lab to pick up and test our samples
22 as required by the DEP regulations. The lab we had
23 been using lost some of our samples last year, which
24 caused us substantial problems. Also, the DEP
25 personnel and our engineers have strongly recommended

1 that we transfer our testing to a more competent
2 qualified lab. Accordingly, we have obtained a written
3 quote from Savannah Labs in Tallahassee, based upon all
4 of the sampling that we are currently required to
5 perform to meet all applicable state and federal
6 regulations. We are no longer going to impose upon the
7 wives of our employees to deliver the samples to the
8 lab. This procedure has raised numerous concerns and
9 questions which need to be avoided. The quote set
10 forth in our revised MFR's is the total annual amount
11 required to properly meet our sampling requirements.

12 Over the years, we have received numerous
13 complaints about our personnel not being in uniform.
14 Many of our customers have complained that they do not
15 like un-uniformed personnel coming on their property
16 because and their tenants do not know our employees are
17 utility authorized personnel who have authority to come
18 on to the property for meter reading and other similar
19 matters. We did not provide uniforms for our employees
20 during the 1992 test year, but we now have a contract
21 to provide these at approximately \$1,200 per year. I
22 believe this is a reasonable and necessary expense.

23 DEP has mandated that we make arrangements for
24 substantial maintenance of the ground storage tank.
25 Also, our engineers and others have advised that our

1 elevated tank will soon begin having substantial
2 problems unless we begin a maintenance program
3 immediately. Based on this, we have agreed to a
4 maintenance contract with Eagle Tank Technology
5 Corporation of Jacksonville for the ongoing maintenance
6 of both tanks at a cost of \$20,493 per year.

7 For many years, we have been advised that our
8 pipes throughout the Island need to be cleaned or
9 "pigged out" on a periodic ongoing basis. This will
10 help us detect and repair leaks, it will increase water
11 pressure, it will cut down on turbidity levels and
12 other water quality problems, and it will provide other
13 benefits that have been explained to us. The cost of
14 this work is \$35,040 per year, which we believe to be
15 an ordinary and necessary expense for the utility
16 company.

17 The Northwest Florida Water Management District is
18 requiring that we perform a hydrological study of the
19 Eastpoint area as a condition of our continued draw-
20 down of water from our three wells at Eastpoint.
21 According to the water management district, we are
22 already exceeding our consumptive use permit allocation
23 by at least 10%. So, this study will have to be done
24 during 1994. The estimated cost of this study is
25 \$45,000.

1 Regarding account 642, Rental Equipment, we have
2 an arrangement with our operations manager, Hank
3 Garrett, under which we lease the backhoe which he
4 purchased for our use and benefit. We need a backhoe
5 on a full time basis, and this arrangement with Mr.
6 Garrett has resulted in a substantial savings over what
7 we paid when we were renting the backhoe from Beard
8 Equipment.

9 Regarding account 650, Transportation Expenses, we
10 have determined over the years that it is much more
11 cost effective for the utility to require employees to
12 have a vehicle as a condition of their employment with
13 an auto allowance rather than the utility trying to own
14 and maintain a fleet of vehicles. The transportation
15 allowances set forth in our revised MFR's are
16 reasonable and necessary for the various employees to
17 perform their duties, and this has resulted in a
18 savings to the utility as compared with the expense we
19 would incur if vehicles were owned and maintained by
20 the utility.

21 Regarding the various insurance accounts 656, 657
22 658 and 659, we do not need vehicle insurance per se
23 because of our arrangement with the utility company
24 employees requiring them to own and maintain their own
25 vehicles. However, we must have general liability,

1 workers' compensation and property insurance to
2 properly protect the interest of the utility and its
3 customers. We had such insurance at the time of the
4 hurricanes in 1985, which enabled us to repair the
5 damaged pipe across the bridge within a matter of days.
6 Because of the availability of this insurance, we were
7 back in service faster than the other utilities on the
8 Island. However, without insurance at that time, I do
9 not know how we would have been able to cover the
10 substantial cost of repairing the damage to our
11 transmission line across the bridge and causeway. The
12 insurance quotes set forth in our revised MFR's are
13 reasonable, and we must have this insurance to comply
14 with the law and to properly protect the interests of
15 both the utility and all of its customers.

16 Regarding account number 670, Bad Debt Expense, we
17 have determined that our uncollectible accounts at
18 12/31/92 were \$6,276.13, which has been written off as
19 of the end of 1992. One of our main problems in
20 operating the utility company is that many houses
21 remain vacant for substantial periods of time before
22 they are sold, or between customers. Under the
23 Commission rules, we are not allowed to collect the old
24 debt from the new owner or new customer, which accounts
25 for significant losses through bad debts each year.

1 Also, under the Commission rules, we are required to
2 refund deposits based upon the customer's payment
3 record. However, in many cases, we are still left with
4 a bad debt when the customer's account is closed, since
5 the deposit has already been refunded in accordance
6 with the Commission rules.

7 Regarding account 675, Miscellaneous Expenses, we
8 have made an adjustment to provide for a cellular phone
9 to be used by our operations manager, Hank Garrett, on
10 the Island, as well as one-half of the cost of my
11 cellular phone. In my opinion, these phones are
12 necessary for the utility to be properly operated with
13 no outages. On at least two occasions since Mr.
14 Garrett and I obtained our cellular phones, we have
15 communicated during times of emergencies by using these
16 cellular phones. In both cases, the phones may well
17 have made the difference between an outage and
18 remaining in service, which we were able to do. Also,
19 on a daily basis, we are able to reach and communicate
20 with Mr. Garrett, and all of the utility personnel are
21 able to reach and communicate with me by using the
22 cellular phone. I believe these phones are reasonable
23 and necessary, and that an adjustment should be made to
24 cover their costs, which was not fully covered during
25 the test year because both phones were not available

1 during all of 1992.

2 Because of the constant communication and paper
3 flow required between the Tallahassee office and the
4 Island office, the Island office badly needs a fax and
5 copy machine. Accordingly, we have agreed to rent
6 these items, which is an adjustment to our 1992 test
7 year when we did not have a fax or copy machine on the
8 Island. This expense is necessary, and I believe it is
9 reasonable and should be allowed.

10 The cost of filing the limited partnership annual
11 reports with the Florida Secretary of State's Office is
12 greater than the amount reported during the 1992 test
13 year.

14 I assisted our consultant, Frank Seidman, in
15 preparing MFR's filed in this case. Although I am not
16 familiar with all the MFR's in detail, I have reviewed
17 all of the costs and adjustments, including the
18 proforma items, and I believe they re all reasonable
19 and necessary if this utility is to maintain its
20 ability to provide safe and adequate water service on
21 St. George Island. Since the last rate case, the
22 utility company employees and I have worked diligently
23 to meet all of the governmentally imposed requirements,
24 and to provide safe and reliable water service which is
25 our ongoing responsibility. However, we can continue

1 to meet this responsibility only if we obtain a revenue
2 increase sufficient to meet our operating expenses, and
3 to provide a reasonable return on the investment by the
4 utility company owners. The utility has no other
5 source of revenue, and it is impossible to continue
6 operations with the losses we have been experiencing
7 since this company has been in business. In my
8 opinion, the revenue increase requested in this rate
9 case is absolutely necessary for St. George Island
10 Utility Company to continue meeting its obligation to
11 provide safe and reliable water service to its
12 customers on St. George Island.

13

14 **Q. Does that conclude your testimony?**

15

16 **A. Yes. It does.**

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